

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA, INC. )  
FOR APPROVAL OF A CHANGE IN ITS FUEL COST )  
ADJUSTMENT FOR ELECTRIC SERVICE, FOR )  
APPROVAL OF A CHANGE IN ITS FUEL COST )  
ADJUSTMENT FOR HIGH PRESSURE STEAM ) CAUSE NO. 38707 FAC 74  
SERVICE, AND TO UPDATE MONTHLY )  
BENCHMARKS FOR THE CALCULATION OF ) APPROVED: DEC 19 2007  
PURCHASED POWER COSTS IN ACCORDANCE )  
WITH INDIANA CODE 8-1-2-42, INDIANA CODE 8-1- )  
2-42.3 AND VARIOUS ORDERS OF THE INDIANA )  
UTILITY REGULATORY COMMISSION )

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner**

**Loraine L. Seyfried, Administrative Law Judge**

On October 23, 2007, pursuant to Indiana Code §§ 8-1-2-42 and 8-1-2-42.3, and various Orders of the Indiana Utility Regulatory Commission ("Commission"), Duke Energy Indiana, Inc. ("Duke Energy Indiana" or "Company") filed with the Commission the above-captioned Application for approval of a change in its fuel cost adjustment for electric service, approval of a change in its fuel cost adjustment for steam service, and to update monthly benchmarks, together with its case-in-chief testimony. On November 2, 2007, Duke Energy Indiana Industrial Group ("Industrials") filed a Petition to Intervene in the instant Cause which the Presiding Officers granted on November 16, 2007. The Indiana Office of Utility Consumer Counselor ("OUCC") filed its audit report and direct testimony on November 21, 2007, and filed additional testimony on November 26, 2007.

Pursuant to proper notice of hearing, published as required by law, proof of which was incorporated into the record by reference, a public evidentiary hearing was held in this Cause on December 6, 2007, at 10:00 a.m., EST, in room 222, of the National City Center, 101 West Washington Street, Indianapolis, Indiana. Duke Energy Indiana offered into evidence its testimony and exhibits, consisting of the Application in this Cause, and the Direct Testimony, including corresponding exhibits, of Ms. Diana L. Douglas, Mr. Vincent E. Stroud, Ms. Lisa M. Cullen, Mr. Stephen M. Herrera, Ms. Mary Ann Amburgey, and Mr. John D. Swez. The OUCC offered the testimony and exhibits of Mr. Gregory T. Guerrettaz, Mr. Michael D. Eckert, and Ms. Stacie R. Gruca. All evidence was admitted into the record without objection. No members of the general public appeared or participated at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Commission Jurisdiction and Notice.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Duke Energy Indiana is a public utility within the meaning of Indiana Code § 8-1-2, *et seq.*, as amended, and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Therefore, the Commission has jurisdiction over the parties and the subject matter of this Cause.

2. **Duke Energy Indiana's Characteristics.** Duke Energy Indiana is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office in Plainfield, Indiana, and is a second tier wholly-owned subsidiary of Duke Energy Corporation. Duke Energy Indiana is engaged in rendering electric utility service in the State of Indiana. The Company owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public. The Company also renders steam service to one customer, Premier Boxboard Limited LLC ("Premier").

3. **Order in Cause No. 42359.** On May 18, 2004, the Commission issued an Order in Cause No. 42359 ("May 18 Order") approving base retail electric rates and charges for Duke Energy Indiana. Among other things, the Commission's May 18 Order found that Duke Energy Indiana's base cost of fuel should be 14.484 mills per kWh and that the Company's base rates for electric utility service should reflect an authorized jurisdictional net operating income of \$267,500,000, prior to any additional return on qualified pollution control property approved by the Commission, pursuant to Ind. Code §§ 8-1-2-6.6 and 6.8, not taken into account in the May 18 Order.

4. **Orders in Cause Nos. 41744 S1 and 42061, 42061 ECR3 and 42061 ECR8.** The Commission's July 3, 2002, Order in Cause Nos. 41744 S1 and 42061 ("CWIP Order"), and the June 27, 2007, update in Cause No. 42061 ECR9 ("CWIP Update"), authorized Petitioner to add the value of certain qualified pollution control property to the value of the Company's property for ratemaking purposes. The final order in Cause No. 42061 ECR3 stated that the applicable incremental increase to Duke Energy Indiana's authorized return, approved in that proceeding, shall be phased-in over the period of time that Petitioner's net operating income was affected by the applicable CWIP update. In accordance with these Orders, Duke Energy Indiana calculated its authorized jurisdictional net operating income level for the 12-month period ending August 31, 2007, to be \$307,283,000. No party objected to the calculation of the authorized jurisdictional net operating income level proposed by Duke Energy Indiana, and we find it to be proper.

5. **Source of Fuel.** Mr. Vincent E. Stroud, Vice President, Regulated Fuels for Duke Energy Shared Services, Inc., testified regarding Duke Energy Indiana's fuel procurement practices. Petitioner generally purchases coal under long-term contracts. For the period encompassed by the twelve (12) months ended August 31, 2007, long term commitments accounted for more than 95% of the Company's coal receipts. Petitioner supplements these long-term contract purchases with the purchase of coal on the open market. All of Duke Energy Indiana's major generating stations are covered by long-term contracts except Edwardsport Station. Edwardsport is an older station and is used by the Company essentially for peaking;

therefore, a long-term coal supply contract is not necessary. The requirements for Edwardsport are supplied by either diverting contract tonnages from other stations or from spot market purchases. Duke Energy Indiana's average cost of coal per million BTU applicable to its long-term contracts has historically been lower than the cost of the coal the Company would have incurred on the open market. In the current period, long term contract coal purchase prices reflected this trend. Duke Energy Indiana also contends that if it were to purchase all of its coal requirements on the open market, spot prices would be driven upward. Mr. Stroud explained that when spot coal is required, the purchase commitments are usually made for small quantities, over short durations, and are based on the lowest delivered cost and best overall utilization characteristics. Mr. Stroud also discussed other steps the Company takes to keep coal prices down.

Mr. Stroud testified that in his opinion Duke Energy Indiana is purchasing coal at the lowest cost reasonably possible. Mr. Stroud concluded his testimony by offering his opinion that oil purchased by Duke Energy Indiana for peaking units, unit cycling purposes and Duke Energy Indiana's one oil-fired boiler at Edwardsport Station is purchased at the lowest cost reasonably possible.

In pre-filed testimony, Mr. John D. Swez, Director, Bulk Power Marketing and Trading, discussed Duke Energy Indiana's natural gas purchasing contracts and practices. Mr. Swez testified that, in his opinion, Duke Energy Indiana is presently purchasing natural gas at the lowest cost reasonably possible.

Mr. Swez also indicated that hot and dry weather conditions during August, 2007 caused the Company to incur higher than usual total fuel costs for the month of August 2007. In particular, he reported that August 2007 ambient temperatures were 6.5°F above average for the month at the Indianapolis airport, one of the hottest months of August on record (including 22 days above 90 °F). Further, Mr. Swez stated that precipitation for the months of June, July, and August was about 4.82 inches below normal at the Indianapolis airport and about 4.57 inches below normal in Lafayette, Indiana. He explained this is significant because the hot and dryer than normal weather conditions caused lower than normal river conditions, which in turn caused the Company to more frequently derate its generating units that discharge cooling water to the Wabash and White Rivers to avoid violating the thermal restrictions set forth in the Company's NPDES permits. In short, these weather conditions caused the Company to utilize its gas generating units to a greater extent, thereby burning more gas, and also to purchase more power than usual from the wholesale power markets, all contributing to the increase in fuel costs in order to meet customers' greater than normal demands for electricity.

Based upon the evidence presented, we find that Duke Energy Indiana has made reasonable efforts to acquire fuel for its own generation so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

**6. Hedging Activities.** In his pre-filed testimony, Mr. Stephen M. Herrera, Director, Financial Trading, Bulk Power Marketing and Trading, provided updates of the Company's gas and power hedging activities. He explained that the Company relies more on natural gas for fuel for the Company's peaking plants than it has in the past and referenced recent historical

occurrences of gas price volatility. He testified that, in his opinion, it makes sense for the company to take advantage of the hedging tools available to protect against price fluctuations. He stated that the Company currently plans to hedge about one half of its expected natural gas burn for the winter months.

Mr. Herrera also noted recent historical occurrences of power price volatility and explained the Company's use of forward power purchase contracts to hedge against this volatility. Mr. Herrera explained the Company began making power hedging purchases in January 2006 and has continued that practice. At the time of his pre-filed testimony, the Company had entered into forward power hedges through November 2007. Mr. Herrera explained that Duke Energy Indiana measures the forward purchase price of power against the expected cost of operating Company generation. When the forward purchase price is less than the expected internal generation prices, the Company may purchase a forward power hedge. This action essentially fixes a price for purchased power at a cost lower than the expected cost of operating the Company's own generation for a portion of its expected load. Mr. Herrera also explained the Company is constantly assessing conditions and adapting its forward power positions accordingly with the goal of maintaining forward power hedges only in the amount necessary to economically cover its forecasted load.

Mr. Herrera offered his opinion that the Company's gas and power hedging practices are reasonable. He stated that the Company does not speculate on future prices, that its hedging decisions are economic at the time they are made, and that the Company's hedging practices reduce volatility and benefit customers by reducing customers' risk of paying potentially higher spot market prices.

In pre-filed testimony, Diana L. Douglas, Director, Revenue Requirements, explained that the amounts included in fuel costs in this proceeding consisted of a net realized loss in the amount of \$1,477,011 for gas hedging activity and net realized gains of \$1,140,586 from power hedging activities (exclusive of Midwest ISO virtual activity). Mr. Herrera testified that robust natural gas supplies and the lower than normal temperature in July caused spot gas prices to be lower than the company's hedged price.

The Commission's Order in Cause No. 38707-FAC67, dated April 6, 2006, found gas hedging activities to be reasonable. The company has included a negative gas hedging value of \$1,477,011 in the computation of the current fuel adjustment clause factor. The gas hedging amount was properly included, and we so find.

In the June 28, 2006, Commission Order in Cause No. 38707-FAC68, the Commission approved the OUCC's Motion for a Subdocket, to provide the parties to that proceeding more time to examine Petitioner's power hedging program and the appropriateness of including realized power hedging costs and credits in the computation of the fuel adjustment charge. Thus, we will allow Petitioner to include the credit of \$1,140,586 of realized power hedging gains in the calculation of fuel costs in the instant proceeding on an interim basis, subject to the outcome of Cause No. 38707-FAC68S1.

7. **Order in Cause No. 42685 and Cause No. 38707-FAC70.** On June 1, 2005, the Commission issued its final Order in Cause No. 42685 ("June 1 Order"). In the June 1 Order, we approved certain changes in the operations of Duke Energy Indiana and the other investor-owned Indiana electric public utilities that are participating members of the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"). Additionally, we addressed the timing and manner of recovery of costs incurred by Duke Energy Indiana as a result of the Midwest ISO's implementation of day-ahead and real-time markets for electric energy (the "Day 2 Markets"). In the June 1 Order, we determined the Day 2 Markets charges and credits that should be included in the cost of fuel for purposes of subsequent fuel cost proceedings, including certain charges and credits listed on page 37 of the June 1 Order.

In the instant filing, Mr. Swez stated that Duke Energy Indiana included the following Day 2 Markets charges and credits incurred as a cost of reliably meeting the needs of Duke Energy Indiana's load: (1) Day 2 Markets charges and credits associated with Duke Energy Indiana's own generation and bilateral purchases that were used to serve retail load; (2) purchases from the Midwest ISO at the full locational marginal price at Duke Energy Indiana's load zone; and (3) other Day 2 Markets charges and credits included in the list on page 37 of the June 1 Order.

The Commission Order in Cause No. 38707-FAC70, dated December 28, 2006, subsequently amended the June 1 Order regarding uninstructed deviation amounts. In that Order the Commission found uninstructed deviation penalties incurred on or after June 1, 2006 are a reasonable cost of generating power in the Midwest ISO market and may be properly included as a cost of fuel in FAC proceedings, unless it is demonstrated that the utility failed to use Good Utility Operating Practice. The Commission further found that the Company should credit customers with uninstructed deviation revenues in future FAC proceedings and cease doing so in Rider 68. The Commission also required an explanation in support of cost recovery for any given month in which uninstructed deviation charges exceeded such revenues. Accordingly, the Company included uninstructed deviation costs and revenues in its calculation of the fuel adjustment factor in this proceeding. Mr. Swez's testimony in this Cause indicated uninstructed deviation charges did not exceed revenues in either June or July 2007. However, for the month of August 2007, initial data indicated uninstructed deviation charges did exceed revenue in August 2007. He explained that subsequent information from the Midwest ISO, which will be reflected in the next FAC filing, shows uninstructed deviation charges did not exceed revenues for August 2007. OUCC witness, Mr. Eckert agreed the Company should be allowed to recover the uninstructed deviation charges for August and Duke Energy Indiana will reflect the new information and related credit in the next FAC.

Ms. Mary Ann Amburgey testified as to the procedures followed by the Company to check the charges and credits allocated by the Midwest ISO to the Company. She also discussed the process by which the Midwest ISO issues multiple settlement statements for each trading day and the dispute resolution process with respect to such statements. She stated that every daily settlement statement received by the Company from the Midwest ISO is reviewed utilizing the computer software tools described in her testimony.

Ms. Amburgey also reported that the Company registered Gibson Unit 5 with the Midwest ISO as a separate Asset Owner as of March 1, 2007. This was done to facilitate the allocation of charges and credits to the joint owners of Gibson Unit 5, Indiana Municipal Power Agency and Wabash Valley Power Association. This change does not impact the amount of charges and credits allocated to the Company's retail customers, but is useful to know about from an auditing perspective. Mr. Eckert, on behalf of the OUCC, testified that this process simplified the tracking of charges and credits associated with Gibson Unit 5 and the OUCC therefore recommended that the Commission approve this change. Based on the evidence presented, the Commission finds this change should be approved.

In addition, Ms. Amburgey reported that in June 2007 the Company had received a credit from the Midwest ISO in the amount of \$5,296,682.39, consisting of the End of Year Excess Congestion Fund Amount and the FTR Auction Residual Amount Disbursement for the year 2006. Ms. Douglas reported that the native portion of this amount was \$5.2 million, which was credited to the native load fuel cost in this proceeding.

OUCC witness Ms. Stacie R. Gruca explained the resettlement of Midwest ISO Revenue Sufficiency Guarantee ("RSG") credits and charges and RSG Make Whole Payments resulting from the FERC Order in Docket No. ER04-691-085 and its impact on ratepayers. Ms. Gruca recommended on behalf of the OUCC that Duke Energy Indiana be allowed to continue to recover credits and charges attributable to RSG Make Whole Payments due to the FERC resettlement process, if the Petitioner identifies such credits and charges in specific work papers and testimony in future FAC proceedings. Ms. Gruca also recommended that Petitioner provide a breakdown of each RSG charge type, and the total of RSG charge types in future FAC filings. She also recommended that Petitioner synchronize future FAC and RTO proceedings.

We encourage Duke Energy Indiana to synchronize future FAC and RTO proceedings and the parties to reach agreement on the time for review afforded the OUCC with regard to future FAC proceedings. In addition, as no party objected to the suggested form of RSG information, we find that Duke Energy Indiana should incorporate the recommendations Mr. Gruca details on page 5 of her pre-filed testimony in future FAC filings.

Based upon the evidence presented, we find that Duke Energy Indiana's inclusion of the Day 2 Markets charges and credits in its cost of fuel is consistent with the June 1 Order in Cause No. 42685 and the December 28, 2006, Order in Cause No. 38707-FAC70. We further note that Duke Energy Indiana's practices within the Midwest ISO Day 2 Market are an issue in the subdocket, Cause No. 38707-FAC67S1. On September 13, 2007, we issued an Order in that case. Therefore, Petitioner's recovery of fuel costs through the FAC as a result of participation in the Midwest ISO Day 2 Market related to the issues raised in Cause No. 38707-FAC67S1 is subject to the September 13, 2007 Order and any further proceedings in that case.

**8. Participation in the Day 2 Markets and Midwest ISO Directed Dispatch.** As mentioned above, in the June 1 Order, the Commission approved certain changes in the operations of Duke Energy Indiana as a result of the implementation of the Day 2 Markets. Specifically, we found that Duke Energy Indiana (and the other electric utilities participating in Cause No. 42685) "should be granted authority to participate in the Midwest ISO directed

dispatch and Day 2 energy markets as described in their testimony.” Mr. Swez described Duke Energy Indiana’s participation in the Day 2 Markets and testified that it was consistent with the testimony presented in Cause No. 42685. Based upon the evidence presented, we find that Duke Energy Indiana’s participation in the Day 2 Markets constituted reasonable efforts to generate or purchase power or both to serve its retail customers at the lowest fuel cost reasonably possible. As noted above, the Company’s recovery of fuel costs through the FAC as a result of participation in the Midwest ISO Day 2 Market is subject to the September 13, 2007 Order in Cause No. 38707-FAC67S1 and any further proceedings in that case.

**9. Operating Expenses.** Provisions of Indiana Code § 8-1-2-42(d)(2) require the Commission to determine whether actual increases in fuel costs have been offset by actual decreases in other operating expenses. Accordingly, Duke Energy Indiana filed operating cost data for the twelve months ended August 31, 2007. Duke Energy Indiana’s authorized jurisdictional operating expenses (excluding fuel costs) are \$770,979,000, authorized jurisdictional fuel costs are \$385,527,000 and total authorized jurisdictional operating expenses are \$1,156,506,000. For the twelve month period ended August 31, 2007, Duke Energy Indiana’s jurisdictional operating expenses (excluding fuel costs) totaled \$930,073,000. Accordingly, Duke Energy Indiana’s actual operating expenses exceeded jurisdictional authorized levels during the period at issue in this Cause. Therefore, the Commission finds that Duke Energy Indiana’s actual increases in fuel costs for the above referenced periods have not been offset by decreases in other jurisdictional operating expenses.

**10. Return Earned.** Indiana Code § 8-1-2-42(d)(3), subject to the provisions of Indiana Code § 8-1-2-42.3, generally prohibits a fuel cost adjustment charge which would result in regulated utilities earning a return in excess of its applicable authorized return (earnings test). Should the fuel cost adjustment factor result in the utility earning a return in excess of its applicable authorized return it must, in accordance with the provisions of Indiana Code § 8-1-2-42.3, determine if the sum of the differentials between actual earned returns and authorized returns for each of the 12-month periods considered during the relevant period is greater than zero. If so, a reduction to the fuel adjustment clause factor is deemed appropriate.

The fuel cost charge test period used for earnings test computations in this Cause was the 12 months ended August 31, 2007. During this period, Duke Energy Indiana’s actual jurisdictional electric operating income level was \$239,888,000, while its authorized phased-in jurisdictional electric operating income level for purposes of Indiana Code § 8-1-2-42(d)(3), was \$307,283,000. Therefore, the Commission finds that Duke Energy Indiana did not earn a return in excess of its authorized level during the 12 months ended August 31, 2007.

**11. Interim Rates.** Because of the pending sub dockets, Cause Nos. 38707-FAC67S1 (on which an Order was issued addressing the issues on September 13, 2007) and 38707-FAC68S1, and because we are unable to determine whether Duke Energy Indiana’s actual earned return will exceed the level authorized by the Commission during the period that this fuel cost adjustment factor is in effect, the Commission finds that the rates approved herein should be approved on an interim basis, subject to refund pending further proceedings in Cause No. 38707-FAC67S1 and an Order in Cause No. 38707-FAC68S1 or in the event an excess return is earned.

12. **Estimation of Fuel Costs.** Duke Energy Indiana estimates that its prospective average fuel cost for the months of January, February and March 2008 will be \$55,878,667 or \$0.020117 per kWh. Duke Energy Indiana previously made the following estimates of its fuel costs for the period June through August 2007, and experienced the following actual costs, resulting in percent deviation, as follows:

<u>Month</u>	<u>Actual Cost in Mills/kWh</u>	<u>Estimated Cost in Mills/kWh</u>	<u>Percent Actual is Over(Under) Estimate</u>
June 2007	17.407	21.205	(17.91)
July 2007	21.388	22.688	(5.73)
August 2007	<u>26.356</u>	<u>21.314</u>	<u>23.66</u>
Weighted Average	21.914	21.768	0.67

A comparison of Duke Energy Indiana's actual fuel costs with the respective estimated costs for these three periods results in a weighted average percentage difference of 0.67%. No party in this Cause disputed the techniques or results of Duke Energy Indiana's forecasting methodology. Duke Energy Indiana's estimating techniques appear reasonably sound and its estimates for January through March 2008 should be accepted and we so find.

13. **Purchased Power Benchmark.** Duke Energy Indiana has calculated monthly purchased power benchmarks in accordance with our Order in Cause No. 41363 dated August 18, 1999, and the guidance of this Commission in Cause Nos. 38706-FAC45, 38708-FAC45, 38707-FAC56, and 38707-FAC59. Ms. Lisa M. Cullen, Director, Regulated Midwest Bulk Power Marketing Accounting, presented testimony indicating the benchmarks are as follows:

<u>Month / Year</u>	<u>Benchmark \$/MWh</u> <sup>1/</sup>	<u>Facility</u>
June 2007	82.86	Wheatland 4
July 2007	76.11	Wheatland 4
August 2007	180.32	Wabash Rive Diesel

<sup>1/</sup> Calculated using most efficient unit heat rate

No party objected to these calculations. However, the OUCC's witness, Mr. Eckert indicated concern with the Company's determination of the purchase power benchmarks and the methodology used to select the benchmark, and has recommended the parties and the Commission schedule a technical conference to discuss the matter further. Based on the evidence of record, the Commission finds that Duke Energy Indiana has met the requirements necessary to establish monthly benchmarks for power purchases that occurred during the June through August 2007 reconciliation period and encourages the parties to schedule a technical conference to address the OUCC's concerns.



**14. Firm Energy and Capacity Purchase.** Mr. Herrera described the purchase of a 500 MW firm energy and capacity product for delivery on August 9, 2007, at a total cost of \$974,320. Mr. Herrera testified the purchase was necessary in order to maintain the Midwest ISO day-ahead resource adequacy requirement. He expressed his opinion that the purchase was reasonable and necessary and he described the high temperature and low river conditions (and associated generation unit derates) during the week of August 2, 2007 that existed at the time of this purchase. Ms. Cullen explained the Company's use of the displaced energy methodology to determine the energy cost portion of the purchase in the amount of \$491,000, which was included in total fuel costs in this proceeding. She stated that the Company will seek recovery of the implicit capacity portion of this purchase in the amount of \$483,320 in its Standard Contract Rider No. 70 – Summer Reliability Adjustment proceeding. Ms. Cullen also testified that the entire cost of this firm energy and capacity purchase fell within the purchased power benchmark for August 2007, and she stated that the Company reserves the right to seek recovery of the cost of the implicit capacity component of such purchase in a future fuel adjustment proceeding if the Commission does not approve recovery of the cost of such component in the Company's Rider No. 70 proceedings.

Mr. Eckert, on behalf of the OUCC, reviewed the facts and conditions giving rise to this firm energy and capacity purchase and the applicability of the benchmark to such purchase. Although Mr. Eckert acknowledged that the entire cost of such purchase fell within the purchased power benchmark for August 2007 proposed by the Company, he testified that the OUCC does not believe it would be appropriate for the Company to seek recovery of the implicit capacity component of such purchase in fuel adjustment proceedings in this circumstance where the purchase was not made for economic reasons. He concluded that the OUCC does not oppose Petitioner's proposed treatment of this particular energy and capacity purchase, but it reserves the right to review specific purchases on a case by case basis to determine the appropriate treatment of the transaction. Accordingly, the OUCC reserved the right to challenge the applicability of the Commission's decisions regarding power purchase benchmarks to capacity purchases in future proceedings.

We find that Duke Energy Indiana's inclusion of the cost of the energy component of the firm energy and capacity purchase in the fuel cost adjustment factor for this proceeding based on the displaced energy methodology is appropriate and is hereby approved. Additionally, we recognize that Duke Energy Indiana has not waived its right to seek recovery of the implicit capacity cost of such purchase in future fuel adjustment proceedings in the event that recovery of such cost is denied in the Petitioner's Standard Contract Rider 70 proceedings, although the Commission does not imply any ruling with respect to future recovery of such cost at this time.

**15. Fuel Cost Factor.** As discussed in Finding No. 3 above, Duke Energy Indiana's base cost of fuel is 14.484 mills per kWh. The evidence indicates that Duke Energy Indiana's fuel cost adjustment factor applicable to January through March 2008, billing cycles is computed as follows:

	<u>\$ / kWh</u>
Projected Average Fuel Cost	0.020117
Net Variance	<u>(0.000923)</u>
Adjusted Fuel Cost Factor	0.021040
Less: Base Cost of Fuel	<u>0.014484</u>
Fuel Cost Adjustment Before Applicable Taxes	0.006556
Adjustment for Utility Receipts Tax	<u>0.000100</u>
Fuel Cost Adjustment Factor Adjusted for Applicable Taxes	0.006656

The net variance factor shown above reflects \$6,889,432 of under-billed fuel costs applicable to retail customers that occurred during the period June through August 2007. The amounts presented above were calculated appropriately, and we so find.

16. **Effect on Residential Customers.** The approved factor represents an increase of \$0.003302 per kWh from the factor approved in Cause No. 38707 FAC73. The typical residential customer using 1,000 kWhs per month will experience an increase of \$3.31, or 4.21%, on his or her base electric bill compared to the factor approved in Cause No. 38707 FAC73 (excluding various tracking mechanisms and sales tax).

17. **Fuel Adjustment for Steam Service.** On December 30, 1992, this Commission issued its Order in Cause No. 39483 approving the June 18, 1992 Agreement between Duke Energy Indiana and Premier, which included a change in the method used to calculate Premier's fuel cost adjustment as well as an update to the base cost of fuel. The fuel cost adjustment factor for Premier of \$0.5215038 per 1,000 pounds of steam was calculated on Exhibit B, Schedule 1, of the Verified Application; this factor will be effective for the January through March 2008 billing cycles. Exhibit B, Schedule 2, of the Verified Application is a reconciliation of the actual fuel cost incurred to estimated fuel cost billed to Premier that resulted in a \$6,269 receivable from Premier for the months of June through August 2007.

The Commission finds that Duke Energy Indiana's proposed change in the fuel cost adjustment factor for Premier of \$0.5215038 per 1,000 pounds of steam has been calculated in accordance with this Commission's Order in Cause No. 39483, and that such factor should be approved. We further find that Duke Energy Indiana's reconciliation amount of \$6,269 receivable from Premier has been properly determined and should be approved.

18. **Shared Return Revenue Credit Adjustment for Premier.** Per the June 18, 1992 Settlement Agreement, Premier will receive shared return revenue credit adjustments to the extent incurred. As indicated above in Finding No. 10, Duke Energy Indiana did not have excess earnings or a positive sum of the differentials for the 12 months ended August 2007. Therefore, we find Premier is not due a shared return revenue credit.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. Duke Energy Indiana's fuel cost adjustment factor for electric service to be billed jurisdictional customers, as set forth in Finding No. 15, and the fuel cost adjustment for steam

service as set forth in Finding No. 17 of this Order are hereby approved on an interim basis, subject to refund, in accordance with all of the Findings above.

2. Duke Energy Indiana's inclusion of Day 2 Markets charges and credits in its cost of fuel, as described in Finding No. 7 of this order, is hereby approved, subject to refund related to any further proceedings in Cause No. 38707-FAC67S1.

3. Duke Energy Indiana's registration of Gibson Unit 5 with the Midwest ISO as a separate Asset Owner is approved.

4. Duke Energy Indiana should provide in future FAC proceedings the additional RSG information indicated in Finding No. 7 of this order.

5. Duke Energy Indiana's inclusion of the cost of the energy component of the firm energy and capacity purchase discussed in the fuel cost adjustment factor for this proceeding based on the displaced energy methodology is hereby approved in accordance with Finding No. 14 above.

6. Duke Energy Indiana shall place into effect the fuel cost adjustment factors for electric service and steam service approved herein, applicable to all bills rendered beginning with and subsequent to the later of the effective date of the Commission's Order or the first billing cycle of January 2008, upon filing with the Electricity Division of the Commission, a separate amendment to its rate schedules with clear reference therein that such factor is applicable to the rate schedules reflected on the amendment.

7. This Order shall be effective on and after the date of its approval.

**HARDY, GOLC, SERVER, AND ZIEGNER CONCUR; LANDIS ABSENT:**

**APPROVED: DEC 19 2007**

**I hereby certify that the above is a true  
and correct copy of the Order as approved.**

  
**Brenda A. Howe**  
**Secretary to the Commission**